Torchmark Corporation

3rd QUARTER 2012 CONFERENCE CALL

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Mike Majors:

Thank you. Good morning everyone. Joining me today are Gary Coleman and Larry Hutchinson, our Co-Chief Executive Officers, Frank Svoboda, our Chief Financial Officer; and Brian Mitchell, our General Counsel.

Some of our comments or answers to your questions may contain forward-looking statements that are provided for general guidance purposes only. Accordingly, please refer to our 2011 10-K and any subsequent forms 10-Q on file with the SEC.

I will now turn the call over to Gary Coleman.

Gary Coleman:

Thank you Mike, and good morning everyone.

Net operating income for the third quarter was $125 million, or $1.29 per share — a per share increase of 10% from a year ago. Net income for the quarter was $131 million, or $1.36 per share — a 9% increase on a per share basis.

With fixed maturities at amortized cost, our return on equity was 15.6% and our book value per share was $34.39 — a 9% increase from a year ago. On a GAAP reported basis, with fixed maturities at market value, book value per share grew 20% to $44.86.

In our life insurance operations, premium revenue grew 6% to $454 million, and life underwriting margins increased 13% to $130 million. Net life sales increased 7% to $83 million.

On the health side, premium revenue, excluding Part D, declined 4% to $170 million and health underwriting margin was $39 million, same as the year-ago-quarter. Health sales were $15 million, down 6%.

I will now turn the call over to Larry for his comments on the insurance operations.

Larry Hutchison:

Thank you Gary.

First let's discuss American Income

At American Income, life premiums were up 9% to $167 million and life underwriting margin was also up 17% to $56 million. Net life sales increased 12% for the quarter to $41 million. The producing agent count at the end of the third quarter was 5,472, up 23% from a year ago and up 3% during the quarter.

We are pleased with the continued progress at American Income and we are excited about the company's future prospects. We continue to see growth in the number of newly-hired agents who achieved our top bonus level. The first time top bonus earners were up 47% in the third quarter. Our middle management ranks also increased by 14% in the third quarter. First time bonus earners and middle management trends are both indicators of future agent growth. We expect sales growth for 2012 to range from 13% to 15% while we expect sales growth for 2013 to range from 10% to 15%.

Now Direct Response

In our Direct Response operation at Globe Life, life premiums were up 9% to $158 million, and life underwriting margin increased 8% to $37 million. Net life sales were up 3% to $31 million.

While we are pleased with direct response sales growth, it was slightly lower than expected in the third quarter. However, the new business written during the third quarter was more profitable than the new business written in the year-ago quarter. We expect mid-single digit sales growth for 2012 and 2013.

Now Liberty National

At Liberty National life premiums declined 2% to $70 million while life underwriting margin was up 22% to $19 million. Net life sales declined 6% to $8 million while net health sales declined 24% to $4 million. However, both net life and net health sales have increased sequentially for 2 quarters in a row. The producing agent count at Liberty National ended the quarter at 1,401 - down 11% from a year ago but up 4% since the beginning of this year. The producing agent count grew to 1,420 during the first three weeks of the fourth quarter.

We continue to make progress in turning around our producing agent counts and sales at Liberty National. We are optimistic that agent growth will continue going forward and expect sales growth to range from 8% to 12% for 2013.

Medicare Part D

Premium revenue from Medicare Part D grew 63% to $82 million, while the underwriting margin increased 8% to $7 million. Part D sales for the quarter jumped 161% to $22 million due to the increase in low-income subsidized auto-enrollees for 2012.

We expect an increase of approximately 2% to 3% in our Part D premiums for 2013. This is less than the 2012 increase since we don't expect as many new auto-enrollees under the low-income subsidy program next year.

I will now turn the call back to Gary.

Gary Coleman:

To complete the insurance operations, administrative expenses were $41 million for the quarter, 2% more than the year ago quarter and in line with our expectations. For 2013, we expect a 5% to 6% increase in administrative expenses, with most of the increase due to the acquisition of Family Heritage. However, as a percentage of premium, administrative expenses will be around the same level as 2012.

Now, I want to spend a few minutes discussing our investment operations.

First, excess investment income:

Excess investment income (which we define as net investment income less required interest on net policy liabilities and debt) was $55 million, a decline of $9 million or 14%; 7% on a per share basis from the third quarter of 2011. Sequentially, excess investment income was down $8 million from the second quarter. Both the year over year and sequential declines are due primarily to lower investment income.

Compared to the second quarter, net investment income decreased $6 million or 3%, while average invested assets increased by 1%. Had investment income increased at the same rate as the assets, investment income would have been up $1 million. This $7 million negative swing is due to the decline in the portfolio yield and the large increase in short term investments resulting primarily from the call of $300 million of bank hybrid securities early in the third quarter.

We plan to invest the excess short term funds in bonds by the end of the year. Due to the expected call of our remaining $300 million of hybrid securities and the lower new money rates, we expect excess investment income in 2013 to decrease approximately 6% to 7%. However, reflecting the impact of share repurchases, we expect 2013 excess investment income per share to be flat compared to 2012.

Now, regarding investment portfolio:

Invested assets are $11.8 billion, including $10.9 billion of fixed maturities at amortized cost. There is no exposure to European sovereign debt, and there are no commercial mortgage back securities or securities backed by sub-prime or alt. A mortgages.

At September 30, the Company had cash and short term investments totaling $685 million compared to $180 million at June 30. The additional $505 million of cash and short terms is due primarily to the $268 million of proceeds from two debt instruments issued late in the quarter and $237 million of additional funds to be invested. Now of this amount, $200 million will be used for the acquisition of Family Heritage Life we think on November 1, $120 million for the retirement of our trust preferred debt this week and $94 million to retire the existing August, 2013 debt issue.

Of the fixed maturities, $10.2 billion are investment grade with an average rating of A-, below investment grade bonds are $685 million, compared to $764 million at the end of the 2nd quarter and $721 million a year ago.

The percentage of below investment grade bonds to fixed maturities is 6.3% compared to 6.8% a year ago. With a portfolio leverage of 3 times the percentage of below investment grade bonds to equity, excluding net unrealized gains on fixed maturities, is 21%, which is less than most of our peers. Both of these ratios have declined slightly since the end of the quarter as much of the excess cash held at September 30 has been invested in investment grade fixed maturities.

Overall, the total portfolio is rated a high BBB+, just slightly under the A- of a year ago.

We have net unrealized gains in the fixed maturity portfolio of $1.6 billion compared to $942 million a year ago.

Regarding investment yield:

In the third quarter, we invested $326 million in investment grade fixed maturities, primarily in the utility and industrial sectors. We invested at an average annual effective yield of 4.42%, an average rating of BBB+ and an average life of 23 years. For the year, we have invested $755 million at an average yield of 4.54% and an average rating of BBB+.

The third quarter new money yield of 4.42% has declined from the 5.65% yield for all of 2011 and the 4.64% yield in the first half of 2012. Earlier this year, we indicated that the GAAP discount rates used to discount the reserves for policies issued in 2012 would be 4.75% graded to 6.5% over 7 years. However, in response to the decline in new money yields and further indications that treasury rates will continue to be near current levels for the near future, we have changed the discount rates for policies issued in 2012 to 4.25% for five years, then graded up to 6.25% over the next 8 years.

For the entire portfolio, the third quarter yield was 6.33% compared to 6.54% in the third quarter of 2011. As of September 30, the yield on the portfolio is 6.33%

As mentioned, we still hold $300 million of bank hybrids that could be called. We don't know whether any of them will be called in the fourth quarter, but expect all of them to be called by the end of 2013. These bonds yield 7.35% and assuming a 4.25% reinvestment rate, the lost annual income if all of those securities are called will be $6 million after tax. In our guidance, we assumed that all will be called in 2013.

On past analyst calls we have discussed the current low interest rate environment and the impact of a "lower for longer" rate scenario. Our concern regarding an extended period of low interest rates continues to be the impact on earnings, not the balance sheet.

As we had talked about before, to maintain our underwriting margins we raised the new business premium rates on the majority of American Income's life products and the Direct Response juvenile products by 5% as of January 1st of this year. These increases provide additional margin to help offset reductions to excess investment income on new policies without having a detrimental impact on sales.

However, as long as we are in this low interest rate environment, the portfolio yield will continue to decline and thus pressure excess investment income. However, the decline will be slowed by the fact that on average, only 2-3% of fixed maturities will run off each year over the next five years, and that assumes the call of the remaining $300 million of hybrid preferreds.

In the second quarter we conducted a stress test assuming a new money rate of 4.25%, and determined that the portfolio yield at the end of 2016 would be in a range of 5.75% to 5.85%. At these rates we would earn a small spread on the net policy liabilities, while earning the full 575 – 585 basis points on our equity. In this scenario we will still generate substantial excess investment income.

As I mentioned, an extended low interest rate environment impacts our income statement, but not the balance sheet. Since we primarily sell non interest sensitive protection products accounted for under FAS 60, we don't see a reasonable scenario that would require us to write off DAC or put up additional GAAP reserves due to interest rate fluctuations. In addition, we do not foresee a negative impact on our statutory balance sheet.

Now, I will turn the call over to Frank to discuss share repurchases and capital.

Frank Svoboda

Thanks Gary, I want to spend a few minutes discussing our share repurchases and capital position.

First, regarding share repurchases and parent company assets:

In the third quarter, we spent $44 million to buy 874 thousand Torchmark shares. For the full year through September 30, we have spent $318 million of parent company cash to acquire 6.6 million shares.

The available liquid assets at the parent consist of assets on hand and the expected free cash flow from operations. Free cash flow results primarily from the dividends received by the parent from the subsidiaries less the interest paid on debt and the dividends paid to Torchmark shareholders.

The Parent began the year with liquid assets of $74 million. During the first nine months of the year, we generated about $328 million of free cash flow but spent $318 million for Torchmark share repurchases. In addition to the remaining $83 million of cash and liquid assets, the Parent received approximately $420 million as a result of the issuance on September 24th of 10 year Senior Notes and 40 year Junior Subordinated Notes. As a result of this activity, the parent ended the second quarter with $504 million of available liquid assets – comprised of the $74 million of beginning liquid assets plus the $328 million of free cash flow, plus $420 million of net debt proceeds, less the $318 million used for share repurchases.

Going forward, along with the $504 million on hand at the end of the third quarter, we should generate approximately $22 million of free cash flow in the fourth quarter, giving us $526 million of total cash and liquid assets available for the remainder of the year. Of this cash, $120 million was used on October 24 to redeem our 7.1% Trust Preferred Securities, and approximately $212 million will be used to purchase the stock of Family Heritage Life, leaving us with approximately $194 million of cash and liquid assets available between now and the end of the year. It should be noted that $94 million of these assets will be invested to be used for the redemption of our $94 million of senior notes that mature on August 1, 2013, or at an earlier time if opportunities to economically repurchase the August 2013 Notes become available.

As noted before, we will use our cash as efficiently as possible. If market conditions are favorable, we expect that share repurchases will continue to be a primary use of those funds. We also expect to retain approximately $50-$60 million of liquid assets at the parent company.

Now, Regarding RBC at our Insurance Subsidiaries:

We plan to maintain our capital at the level necessary to retain our current ratings. For the last two years, that level has been around an NAIC RBC ratio of 325%. This ratio is lower than some peer companies, but is sufficient for our companies in light of our consistent statutory earnings, the relatively lower risk of our policy liabilities and our ratings.

At December 31, 2011, consolidated RBC was 336%, and adjusted capital was approximately $46 million in excess of that required for the targeted 325% ratio. We expect our consolidated RBC as of the end of 2012 to be at or above this level.

Now, before I turn the call back to Larry, I would like to briefly discuss our recent debt issue and the purchase of Family Heritage Life Insurance Company.

First the Debt Issue:

With regard to our debt, on September 24, we closed on a $300 million 3.8% Senior debt issue maturing in 2022. The Senior notes were issued to provide $94 million to pre-fund the eventual retirement of our August 2013 Senior Notes and $200 million to fund the acquisition of Family Heritage Life. As we wanted to fund the majority of the Family Heritage Life acquisition internally, the Parent issued $150 million of these notes to two of our insurance companies. Having these companies purchase the Parent Senior notes enabled us to:

One, efficiently use insurance company cash that resulted from the $300 million in bank hybrids called in July and to get those funds invested at a market rate;

Two, provide funds to the Parent to fund the acquisition in a way that will allow these insurance companies to fully admit the asset on their statutory books.

Three, structure the transfer of funds to the Parent in a way that minimizes the RBC charges that will be incurred by the insurance companies, and

Four, structure a public debt issue that was large enough to obtain the most efficient pricing available on the market.

It should be noted that the $150 million in notes owned by the two insurance companies are eliminated in consolidation and thus are not treated as outstanding debt or as invested assets on our consolidated financial statements.

We also issued on September 24, $125 million of 40-year Junior Subordinated Notes with an interest rate of 5 7/8%. Those notes are callable after 5 years and were issued to refinance our $120 million of Trust Preferred Securities. The Trust preferred securities were called on October 24.

As a result of the new issuances, our debt balances as of September 30 increased by approximately $268 million, temporarily increasing our debt to capital ratio to 29.9%, if the effects of the unrealized gains on our fixed maturity investments are ignored. However, this ratio will be reduced to 28.1% upon redemption of the Trust Preferred Securities and to our normal levels once the August 2013 notes are redeemed.

We expect our interest expense will increase in the near term due to the prefunding of both the retirement of our Trust Preferred Securities and the August 2013 maturity, plus the additional debt incurred for the Family Heritage purchase. For 2012, we estimate that this increase over 2011 levels will be approximately $2.1 million, including $1.9 million in the 4th quarter. For 2013, we estimate that our total interest expense will be approximately the same as 2012 levels, assuming the August note is retired on its August 1st maturity. Once the August note is retired, we expect to save approximately $1.5 million in annual interest expense over pre-2012 levels.

Now, with regard to the acquisition of Family Heritage Life.

On July 31, we entered into a definitive agreement to purchase all of the outstanding stock of Family Heritage Life Insurance Company, a privately-held supplemental health insurance provider, for approximately $218.5 million, including the assumption of $20 million in Trust Preferred Securities, with the remainder to be paid in cash. The ultimate purchase price is subject to closing adjustments to be paid using cash from a post-closing dividend from the Company. We expect to close on November 1st, assuming all regulatory approvals are received by that date.

The Company was founded in 1989 and is headquartered in Cleveland, Ohio. It is a specialty insurer focused primarily on selling individual supplemental health insurance products with a return-of-premium feature. We were attracted to the Company because of its offering of protection-oriented insurance to middle income families, and that their sales are through a captive agency force that we believe we can help grow. Family Heritage has approximately 1,200 captive sales agents, 41 sales directors and over 223,000 policies in force. We are excited about the opportunity to work with the existing management, agents and employees of Family Heritage and currently intend to operate the company as a stand-alone operation.

As of June 30, 2012, statutory admitted assets of Family Heritage were approximately $526 million and net capital and surplus was $62 million. Premiums were $162 million in 2011 and $87 million through June 30, 2012.

Since the transaction has not yet closed and the fair market value of the Company's fixed maturity portfolio and other assets are not yet known, the ultimate effect of certain purchase accounting adjustments cannot yet be determined. However, we anticipate that the Company will add approximately one to two cents per share to Torchmark's net operating income in 2012, assuming a November 1st close, and will add approximately thirteen to seventeen cents per share to 2013 operating earnings. Since we anticipate being able to take dividend distributions out of the Company to fund the additional interest charges to be incurred by the parent, we do not believe the acquisition will have a material impact on our share buyback program.

Those are my comments. I will now turn the call back to Larry.

Larry Hutchison:

Thank you Frank,

This is our guidance for 2012; we expect our net operating income will be within a range of $5.15 per share to $5.19 per share. For 2013, we expect our net operating income will be within a range of $5.45 per share to $5.85 per share.

Those are our comments; we will now open the call up for questions.

QUESTION AND ANSWER

Jimmy Bhullar - *JPMorgan Chase & Co. - Analyst*

Hi, good morning. I had a few questions. The first one, on just your premium conservation efforts.

If you look at your lapse rates in most of the subsidiaries they'd actually been declining, but American Income the lapse rate this quarter was roughly flat with the third quarter of last year. Then secondly, just on the Family Heritage deal. Should the earnings ramp-up as the year goes or would the first quarter of next year be a normal quarter? Just wanted to get an idea of whether you plan to do any expense savings or any marketing initiatives that would either reduce or increase earnings as the deal comes on your books.

And then finally, on Liberty National, you've seen a couple of quarters of decent growth in the agent count, your sales expectations actually seem fairly positive, as well. What gives you the comfort that this is not sort of a temporary blip in the agent count, and what gives you the comfort to think that the agent counts are going to keep growing from here on out?

Larry Hutchison – Torchmark Corp –Co-CEO

Gary do you want to take the first two and I'll take Liberty.

GARY COLEMAN - *TORCHMARK CORP - CO-CEO*

Jimmy, as far as the lapse rates in American income; if you look back over the last couple of years, the third quarter is generally a higher rate. And it's, it's somewhat due to the timing of the new issues and the lapses that occur on those policies. We expect that rate to be lower in the fourth quarter. The third quarter for some reason is just unusually high for American.

JIMMY BHULLAR

Yes. And then quarter over quarter, the results actually [had] gotten better. But even if I compare to the third quarter of last year, you're lapses are actually flat, whereas second quarter versus second quarter or first quarter versus first quarter they were improving.

GARY COLEMAN

Well, you know,--it's?

JIMMY BHULLAR

It's one quarter, so I just wanted to –

GARY COLEMAN

Matter of fact, we have seen benefits as a conservation, as you mentioned in the lapse rates in the prior quarters. Again, I think that the third quarter is just an unusual quarter from a timing standpoint, and again I think in the fourth quarter, it will go back to the improvement we have seen in the other quarters.

JIMMY BHULLAR

Okay.

GARY COLEMAN

And secondly, on Family Heritage, if I understood the question right, I would anticipate that the earnings for the first quarter is that they will grow from there. I don't think the first quarter will be indicative of the entire year, but we really haven't had a chance, as Frank mentioned, to look at what the purchase accounting adjustments are going to be. And right now, we don't have a good feel for what those actual earnings are going to be.

JIMMY BHULLAR

But you don't plan on -- the growth would be just because of organic growth in the business. You're not planning any extraordinary cost savings programs or marketing initiatives that would either increase expenses or reduce expenses over time?

GARY COLEMAN

No, there's no cost reduction expenses that we're factoring in. Their expense ratios are very similar to ours, and they are very efficient. So the growth that we expect will be the organic growth through sales.

JIMMY BHULLAR

Okay.

LARRY HUTCHISON - *TORCHMARK CORP - CO-CEO*

Jimmy, on Liberty National, we believe that the recruiting systems are in place. We are now meeting with the different branch managers in the system. They've accepted that. In the first three weeks of this quarter, we have seen continued steady agent growth. So we believe that will continue.

At Liberty National we plan to roll out the laptop presentation in January. We think this will further help the recruiting and training of new agents. We're hoping to see 20% agent growth at Liberty National in 2013.

JIMMY BHULLAR

Okay. Thank you.

RANDY BINNER ***- FBR & CO. - ANALYST***

Thanks. So it sounds like, and this is kind of a sales question, so it sounds like the laptops are rolled out in January for Liberty National.

Back to American Income, I guess I'd like to hear more color. I think you said middle manager counts there are up 10%. If that could be clarified, that would be great. And I guess just trying to get color on kind of the trend there and how sustainable the increase in the ranks of those sales managers is?

LARRY HUTCHISON ***- TORCHMARK CORP - CO-CEO***

Randy, the sales growth is sustainable. I don't think we're going to see 20% to 25% agent growth per year. Certainly, we think that 10% to 12% to 15% agent growth is sustainable.

And the focus at American income remains its recruiting, it's looking at productivity in those new agents. It's also management promotions. As we promote through those different levels of management, then we'll see growth from the agency. That's really the color of American Income is if those systems continue to be improved. The laptop is fully rolled out at American Income, so we get constant data feedback that we can check those trends.

RANDY BINNER

How about on recruiting? Is there any new going on in the front end in how you're bringing in new recruits?

LARRY HUTCHISON

Well, the Internet recruiting continues to be our biggest source of recruiting. The personal recruiting is also an emphasis in American Income. But personal recruiting, that involves college recruiting, different affiliate recruiting, we're looking at military recruiting as a new initiative.

As the military downsizes, and we see people come out of the military, those are stronger recruits both at American Income and Liberty National. So we continue to look at new recruiting systems. We hope to look at Family Heritage, study their recruiting systems and bring some of those in-house here.

RANDY BINNER

That's helpful. And just to clarify, did you say the middle manager count is up around 10%? I missed that number.

LARRY HUTCHISON

Let's see, I think I said that

Gary Coleman –Torchmark Corp Co-CEO

I think it's up 14%

Larry Hutchison

I said the number is up 14%.

GARY COLEMAN

14%, YES

RANDY BINNER

Okay. And how about in that trend in particular, is that able to stay at that level or is does that settle down now like some of the low hanging fruit there is gone?

LARRY HUTCHISON

It's not low hanging fruit. It's having a system of automatic promotions, in which we promote persons out of the agent level to the first level management and likewise -- the first level of management to the second-level of management. It's a sustainable number.

RANDY BINNER

Okay. That's helpful. Thanks.

CHRIS GIOVANNI ***- GOLDMAN SACHS - ANALYST***

Thanks so much. Good morning. I guess first question just on kind of the guidance in the range. The ranges, I guess, are getting wider at least in the past couple of years. So does that suggest that you know EPS visibility is declining some, or is it just the issue with the Trups and the timing?

LARRY HUTCHISON ***- TORCHMARK CORP - CO-CEO***

Well Chris, I think part of the wider range this year is Family Heritage. We haven't concluded that transaction. We have to study that transaction as we integrate them into Torchmark, so that is some of the impact of a little wider range.

GARY COLEMAN ***- TORCHMARK CORP - CO-CEO***

Yes, Chris, I think last year our range was $0.30. It's $0.40 this year. I agree with Larry that a big part of it is Family Heritage.

CHRIS GIOVANNI

Okay. And then, are there any other M&A opportunities you guys are currently exploring, or at this point, is it primarily going to be share repurchases?

GARY COLEMAN

Well, Chris, we're always looking for M&A opportunities, but to find the type of company that we found with Family Heritage, one that is in the middle income market, has captive agencies, selling the types of products we like, there's not a wealth of those kind of companies out there. We will continue to look, but in the meantime, I think the share repurchases will be the bulk of the use of our excess capital.

CHRIS GIOVANNI

Okay. And then lastly, just on the new money rate. I guess I was little surprised just how well you guys were been able to maintain you know the yields quarter-over-quarter. Given you know what spreads did in the quarter, and then I guess, also, you know you guys shortened some of the duration of the maturities of the portfolio.

So curious if you can comment some on kind of where you're thinking -- as you look forward here into 4Q, you've talked about the 4.25% kind of stress test that you had done. Is that the level of yield you guys are currently looking at?

GARY COLEMAN

Yes. That's what we're currently seeing. One thing that benefited us in the third quarter, I think we've talked about this before, through a partner, we've gotten involved with some private placements. I think we've done $100 million of that. Most of that was in the third quarter.

And those are a little bit shorter, but the yields are in between the 10 and 30 years. So we were able to get a strong yield on those particular investments. And I think that helped for the quarter. That probably helped us get to the 4.42%. But where we are standing today, and the money we've invested so far, which I think we've invested well over $200 million already in October, and it's around that 4.20% to 4.25% range.

CHRIS GIOVANNI

Okay, and still no plan to change the overall investment strategy?

GARY COLEMAN

No not at this point; it just--the yield curve is too steep to drop down short. Also, it looks like rates are going to stay low for a while. As I mentioned, we have got involved with private placements where we hadn't in the past. We're still looking for other types of investments, but we just haven't found anything that's better -- we feel, that's better than the corporate bonds.

CHRIS GIOVANNI

Okay. Thanks so much.

SARAH DEWITT ***- BARCLAYS CAPITAL - ANALYST***

Hi, good morning. On the 2013 EPS guidance, how much is embedded in your outlook in terms of share buybacks?

GARY COLEMAN ***- TORCHMARK CORP - CO-CEO***

I think we are assuming free cash flow of around $360 to $370 million next year, and I think in our guidance we assumed that our share repurchases would be around $360 million.

FRANK SVOBODA ***- TORCHMARK CORP - CFO***

That's correct, Gary.

SARAH DEWITT

Okay, great. So, given that the midpoint of your guidance assumes about 9% EPS growth, it seems like you get 8% EPS growth just from share buybacks alone. So, could that be conservative given that the core business has been growing, you have Family Heritage coming on, there will be a partial offset from the reduction of hybrids, but it just seems conservative. So, am I thinking about that correctly, or am I missing anything?

GARY COLEMAN

Well, I think one thing that is going to factor into it is the fact that our excess investment income will be lower. I think I mentioned it's probably 6% lower on a dollar basis next year. And I think we're seeing good growth on the insurance side, but that is a primary factor.

SARAH DEWITT

Okay, great. Thank you.

PAUL SARRAN *- MACQUARIE RESEARCH EQUITIES - ANALYST*

Thanks, good morning. Was there any sort of cumulative true up in the quarter from the change in discount rate on 2012 new sales?

GARY COLEMAN

Yes, there was. From an underwriting income standpoint, it was pretty much a wash. There was an increase in the reserves, but there's also a decrease in amortization. Where there is an impact is in the excess investment income because of the increase in the interest on the net policy liabilities, and that was about a $500,000 impact in the quarter.

PAUL SARRAN

Okay. On Part D, I don't think you mentioned it, did you pick up any new LIS regions for 2013?

LARRY HUTCHINSON *- TORCHMARK CORP - CO-CEO*

No, we did not pick up new regions for 2013.

PAUL SARRAN

Did you keep the ones they added this year?

LARRY HUTCHINSON

No, I think there's actually a reduction. I think we had six regions in 2013 versus about 24 regions that we have in 2012.

PAUL SARRAN

So do you dis-enroll those policy holders that you added this year then, or do you keep them, you just don't add new ones? How does that work?

LARRY HUTCHINSON

We do not dis-enroll this year's policy holders. But…

GARY COLEMAN

Just looking at the numbers. As Larry mentioned, we had 21 regions last year, and 15 of those regions we're going to be able to keep the auto assigns, but we're not going to get new auto assigns of them. I think there are five regions where we will get new auto assigns. So the bottom line of that is we're not going to see near the number of new auto assigns this year -- or in 2013, that we did in 2012.

LARRY HUTCHINSON

I think I'd think of it in these terms, we are projecting premiums in 2013 to be $327 million versus $319 million in 2012.

PAUL SARRAN

Okay. Thanks.

MARK HUGHES *- SUNTRUST ROBINSON HUMPHREY - ANALYST*

Thank you. Good morning. The life underwriting margin, up strongly this quarter, to what extent is that sustainable?

GARY COLEMAN *- TORCHMARK CORP - CO-CEO*

Well, I think that it was up slightly this year. I think if you look at the nine-months, our life underwriting margin was 28% of premium in overall, it was 29% in the quarter. There's not a lot of difference there, but I think it to be indicative of what the entire year will be -- it would be more in the 28% range.

MARK HUGHES

Right, so for next year more likely to be 28% or slightly better?

GARY COLEMAN

Yes. I think in our guidance it is slightly better than 28%. But again, we're talking about just a small difference.

MARK HUGHES

Right. The Direct Response business, sounds like you are confident that's going to pick back up. What makes you feel good about that?

LARRY HUTCHINSON *- TORCHMARK CORP - CO-CEO*

I think there's three things that make us feel good about the Direct Response business. In 2013, I think our circulation will be up about 3%. I think our Internet sales will pick up about 10%. We have initiatives for 2013 in our adult products, our juvenile products and our other mailings. So a combination of those items, I just feel optimistic about Direct Response.

MARK HUGHES

Right. and just to be clear, the guidance at this point does or does not include the acquisition?

GARY COLEMAN

It does include the acquisition of Family Heritage.

MARK HUGHES

Does include it?

GARY COLEMAN

Right.

MARK HUGHES

Thank you.

STEVEN SCHWARTZ *- RAYMOND JAMES & ASSOCIATES - ANALYST*

Hey, good morning everybody. Just to follow-up on Sarah's question, I guess I'm having a little trouble. Thing is, Gary, you suggested that the interest income -- excess investment income, excuse me, would be down about 6% to 7%?

GARY COLEMAN

Yes. Steve, on a dollar basis it will. On a per-share basis, it will be flat.

STEVEN SCHWARTZ

Okay, yes. You know, even at $360 million of share repurchase, I would imagine that your general account assets, ex all the stuff with the debt being paid off in August or whatever, is still going to grow. So in your guidance -- I would think it would.

In your guidance, where are you thinking the yield goes to by the end of 2013? I think you're currently at 6.33%. Where does that go to by the end of 2013?

GARY COLEMAN

Okay, Steve. First of all, we think that by the end of the year, by the end of the fourth quarter, it will be 6.25% will be our yield on the portfolio. As I mentioned earlier, we are assuming that the remaining $300 million of hybrids that we have get called, in 2013, and they have an interest rate of, I think, 7.3%.

STEVEN SCHWARTZ

Okay.

GARY COLEMAN

And so what we're looking at is by the end of 2013, the portfolio yield will have dropped from 6.25% to 6.04%. So this sounds like these are very precise. These are our estimates. And so the hybrids do have a big impact.

Now going forward from that, we will get back to where the decline of portfolio yield is more like 10 basis points a year. But next year we're looking for a little over 20 basis points decline in the yield.

STEVEN SCHWARTZ

Okay. Well you know, you said 6.04% versus 6 -- well, I guess you have got to take averages -- Alright, maybe I'll get back with Mike offline. If I could, on Family Heritage, what are those agents thinking about their business post-January 1, 2014? Do they see ACA as a growth driver, or do they see that as a headwind?

LARRY HUTCHINSON

I think they see an opportunity. Gary and I have addressed the top agents within the system, and they are excited about joining Torchmark. In think they see opportunities that are going to help with their recruiting. I think we will bring higher ratings to the company, and to be a part of Torchmark I think will be a positive to an agency force.

STEVEN SCHWARTZ

No, I'm sure you will. I was questioning more the macro-environment -- if ObamaCare, the macro-environment and how they see that.

LARRY HUTCHINSON

Well, these aren't products that are subject to ObamaCare. These are products that fall outside healthcare reform.

Steven Schwartz

Okay

Larry Hutchison

And so, those products are unaffected really. I misunderstood your question. I apologize.

STEVEN SCHWARTZ

Okay. Thank you, Larry.

JOHN NADEL *- STERNE, AGEE & LEACH, INC. - ANALYST*

Hi. Most of my questions have been asked and answered at this point. I have got one little nit-picky one left, I suppose, and it's on Part D. Just looking at the quarter's result, third-quarter results, you know, perhaps somewhat weak -- somewhat weak on the margin versus what we've seen here recently. As you look out, was it just sort of a blip, or as you look out to 2013, you know what should we expect for the margin on the biz?

GARY COLEMAN *- TORCHMARK CORP - CO-CEO*

Well, John, first of all, we had an unusually high claim quarter, and especially when you compare back to the third quarter, where we had an usually large claim quarter, there is a big difference. But the margin year-to-date on that business is at 10%. And we think -- 10% of premium, and we think that's -- we'll end the year at 10% of premium. And that's not surprising to us because we priced it at 10.5% premium. So, we're very close to where we priced that.

JOHN NADEL

Okay. That's very helpful. Thank you very much.

SAM HOFFMAN *- LINCOLN SQUARE CAPITAL - ANALYST*

Good morning. I have a question about premium growth. It looks like premium growth accelerated in the quarter from 5.7% to 7.2%. And even if you exclude the Part D it accelerated from 1.4% to 2.6%. And so, that's a big step up in one quarter, and it was driven, I think, by the Direct Response business.

So, I mean obviously, if your premium growth accelerates by 1.2% every quarter, your growth rate is going to be much higher a year from now. And so what I wanted to understand is what happens with the persistency in the business that caused that and how sustainable is it?

GARY COLEMAN *- TORCHMARK CORP - CO-CEO*

Well, Sam, we are seeing benefits from better persistency, but for example, in the Direct Response, we had a 9% increase in premium. We've been showing a 5% to 6% increase. Well, the reason we had 9% this year was more of an issue that the third-quarter premiums of last year were very low. And so, it's just an unusual comparison.

I don't think you can -- the numbers you extrapolate, I don't think you can carry forward quarter-to-quarter. So, we're looking for, on life premiums next year, in the guidance, we're going to be at about 4.5% for this year. We're looking at next year being at least that much, maybe up to 5%. So, we're going to see improvement. But, maybe not at the level you were talking about.

SAM HOFFMAN

Okay. And then just, can you clarify a bit what you're saying about the discount rate and the price increase? I know you said that you lowered the discount rate at the beginning of this year and you raised price. But is that going to recur, both the discount rate and the price increase, in 2013? Just help us understand what's in guidance and how we should think about that going forward.

GARY COLEMAN

Well first of all, in the guidance, we are assuming the same discount rate that I talked about earlier, the 4.25% graded up to 6.25%. We don't feel like -- we feel like the situation will be very similar next year in terms of rates and that will be appropriate.

As I mentioned, we did raise the rates -- the premium rates 5% this year. The effect of changing the interest rate assumption from what we had last year to this year, the issues really would require about 2% to 3% increase in premiums. So we actually increased the premium rates higher than we really needed. But going forward, we still feel like the new level that we've gone in discount rates will be appropriate going forward.

SAM HOFFMAN

Okay. And then I guess my last question is on Family Heritage. Can you talk a bit about the business, and if you could repeat the premium growth that it had and kind of how much sales it has and should be expected to grow over time?

LARRY HUTCHINSON ***- TORCHMARK CORP - CO-CEO***

Frank, do you want to handle that?

FRANK SVOBODA ***- TORCHMARK CORP - CFO***

Sure Larry, the total premium you know in 2011, they had around $162 million of total premium income. And we really look at them growing somewhere in that 8% to 9%, 10% range over the next couple of years. So far, year-to-date through June 30, they have premium income of about $87 million that was reported on their statutory financial statements. So obviously, just looking toward annualizing that, you end up at around $176 million or $175 million, and that's around an 8.5% increase.

So, you know we are again, expecting that the premiums should grow somewhere in that 8% to 10% range. I believe their sales, I don't have that number handy, but I believe that it was somewhere in the $50 million range.

SAM HOFFMAN

Okay. Thanks for taking the call.

BOB GLASSPIEGEL ***- LANGEN MCALENNEY-JANNEY - ANALYST***

I'm going to follow up on Sam's question and try to drill a little bit deeper into the acquisition. It seems like that you're saying the midpoint of the range is $0.15 accretion, which is $23 million of earnings, and there is going to be $2 million to $3 million that's pretax earnings. And it's going to require $2 million to $3 million more of underwriting.

So there's $25 million of sort of pre-tax income that needs to be spread either in the underwriting -- I assume its health underwriting and/or investment income. I think you said investment income is down $6 million, so that's not going to move. Am I right that we need about $25 million of pretax health underwriting income?

FRANK SVOBODA ***- TORCHMARK CORP - CFO***

Yes. That is correct. It is going to be health business. It is somewhere in that range -- we would estimate on a pretax basis, yes somewhere in that $25 million to $27 million range

Bob Glasspiegel

So on a $180 million of premium, it's a pretty good underwriting margin, so were talking about roughly 15%.

Frank Svoboda

Yes. The underwriting margins before admin expense are somewhere -- we expect for 2013 to be in the 14% to 17% range.

Bob Glasspiegel

Okay. My math is right.

Frank Svoboda

And you know, we do--as time goes on, and with new business, we look for it to be slightly higher than that. But with the in force block, that's where we are estimating at this point.

Bob Glasspiegel

Is there anything to do -- anything you can do with capital structure, expense structure, cross-selling or better productivity? That's pretty good sales, actually, relative to their in force, but what can Torchmark add on the margin that you probably haven't factored in here?

Frank Svoboda

Yes with respect to, I'll say the capital structure; they are adequately capitalized at this point in time. They do have some excess capital, if you will, compared to what we would normally maintain at the 325% level. But at this point in time, we do not anticipate taking out any of that excess capital, if you will, and allow that to help fund some of their future growth going forward.

I think as Gary had mentioned earlier, there aren't a significant amount of any expense savings that we're really anticipating at this point. We will continue to look at their investment portfolio and to see whether or not there is some opportunities--opportunities there. And Larry, I may pass it to you with respect to potential sales and potential sales initiatives going forward.

Larry Hutchinson ***- Torchmark Corp - Co-CEO***

Bob, potential sales initiatives, first of all is grow the agency force, and to do that is two ways. One is better recruiting methods. The second is geographic expansion.

They are concentrated in the upper Midwest and Texas. And we think those products could be offered in New York, Canada, other parts of the US. So, that's another part of the expansion we're talking about with Family Heritage.

Bob Glasspiegel

Well if you guys can't create any expense savings, this must be the most efficient small company on the planet.

Larry Hutchinson

If you look at their expense as a percentage of premium, it is quite low. It's a very well-run company.

Gary Coleman

Right.

Bob Glasspiegel

That's impressive. Look forward to learning more about them as you hopefully own it next week. Thank you.

Larry Hutchison

Thank you

Jeff Schuman - ***Keefe, Bruyette & Woods - Analyst***

Thanks. Good morning. I understand that in Part D there was volatility this quarter, and there will be volatility sometimes. But can you remind us, at this point is there any sort of normal kind of baseline seasonality to the margins in that business?

Gary Coleman - ***Torchmark Corp - Co-CEO***

Well, Jeff, we really haven't seen it. I mentioned last year, the third quarter was low. We kind of expected we might see that this year, but instead, it was higher.

This business is priced every year, and we just said -- and the claims come in at different times. We just haven't seen seasonality that we can count on.

Jeff Schuman

Okay, thank you. And then this should probably be obvious, but just humor me, I guess, the excess investment income comparison to down $6 million. Does that exclude Family Heritage from both periods, or is that just in 2013, and you're still down $6 million?

Gary Coleman

That includes Family heritage in both periods.

Jeff Schuman

In both periods?

Gary Coleman

Remember, for 2012, we only had them for two months. But, yes it includes it for both periods.

Jeff Schuman

But, it includes it on a pro forma basis for 2012?

Frank Svoboda - ***Torchmark Corp - CFO***

No, not on a pro forma basis; whatever the actual additional excess would be for those final two months.

Jeff Schuman

Okay. I guess just for some modeling perspective, do you have any idea of how that comparison would have been on an apples-to-apples basis?

Gary Coleman

Yes, Jeff, I will have to find -- let me see if I can find that before the call is over.

Jeff Schuman

Okay. That's it for me, thanks.

GARY COLEMAN

Oh wait a minute, I've got it. Excluding family service -- excuse me, Family Heritage, we would project for 2013 that excess investment income would be down somewhere -- and this is dollar amount, not per share, dollars would be down somewhere between 7% and 10%, And on a per share basis, excess investment income would be a decline of 2% to 4%.

JEFF SCHUMAN

Okay. That's helpful. Thank you

GARY COLEMAN

With Family Heritage, I was saying earlier, on per-share basis, it will be flat for 2013.

JEFF SCHUMAN

Okay. Thanks for clearing that up.

OPERATOR

(Operator Instructions)

And, we will pause a moment to allow further questions to queue. It appears we have no further questions at this time. I'll now turn the conference back over to our speakers for closing remarks.

MIKE MAJORS ***- TORCHMARK CORP - VP IR***

Alright. Thank you for joining us this morning. Those are our comments, and we will talk to you again next quarter.